

# **A Model for the Support of Small Grocery Retailers: The Example of AKR in Japan**

Kazuo Terashima<sup>1</sup> and John Dawson<sup>2</sup>

<sup>1</sup> Kazuo Terashima is Professor in the Faculty of Business Administration, Ryukoku University, 67 Tsukamoto-cho, Fukakusa, Fushimi-ku, Kyoto 612-8577, Japan, and Visiting Research Scholar at The University of Edinburgh Management School, E-mail: [terasima@biz.ryukoku.ac.jp](mailto:terasima@biz.ryukoku.ac.jp)

<sup>2</sup> John Dawson is Professor of Marketing at The University of Edinburgh Management School, 50 George Square, Edinburgh EH 8 9JY, UK, Visiting Professor at ESADE, Barcelona and Distinguished Professor at UMDS, Kobe, Email [john.dawson@ed.ac.uk](mailto:john.dawson@ed.ac.uk).

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### **Abstract**

In Japan, independent small retailers used to dominate the retail industry. Since the second half of the 1970s, small grocery retailers have been losing market share partly attributed to the growth of the large grocery retailers. Although there has been considerable research into policies to address this issue, the trend has not changed. Japan has seen a steady decrease in the number of small shops. For the most part these are food retailers. Recently a new approach to improve their competitive position has achieved success in the Retail Grocery Market (RGM) in Japan. This paper deals with the case of AKR which is a co-operative buying group targeting firms operating in this institution. This paper describes the AKR business model and examines its success factors. Through the research, it is revealed that a guarantee system for buying debts has a critical role in the AKR model, and also it is shown that the key factors for the development of AKR model are:

- 1) Removal of reservations felt by the members,
- 2) A consistent competitive strategy aimed at low cost and high effectiveness, and
- 3) Focus on the customer value.

AKR provides a business model to address the declining competitiveness of small retailers not only in Japan but also in other countries. The paper concludes with some suggestions for the further research.

**Keywords:** Support Model, Small firm, Grocery Retailing, Cooperative buying, Japan

## 1 Background

This paper deals with the small scale retail sector in Japan. The paper focuses on the problem of the regeneration of the Retail Grocery Market, [RGM], and the successful case of AKR Kyoueikai in the regeneration of RGM in Kansai. We begin with a brief explanation of the characteristics of RGM and AKR.

An RGM is a corporate facility to sell food and daily necessities to the consumers living in the immediate neighbourhood. It consists of 20- 40 independent specialist small food and grocery shops within a single building. It operates 6 days a week and is located close to the residential sections of the city. Its size is about from 500 to 1500 square meters. Typical retailers in the RGM are butcher, fishmonger, greengrocer, fruit store, rice store, and bakery. As an institution the RGM has similarities to the Market Hall in the UK and the Municipal Market in Spain (Ripol and Arévalo 2001).

The concept of the RGM originated in Osaka in 1918 against the background of the social instability due to recession and the rise in the price of rice. The aims were to regularise the supply of daily goods for the consumer and to stabilize prices. RGMs became popular and spread mainly in the west of Japan. They were successful for several decades. However, after the late 1970s, with the growth of large supermarket chains, the RGMs rapidly lost their market position and many closed. For example, the number of RGMs in Osaka Prefecture fell from 724 in 1970 to 525 in 1994. After 1980, the decline of the RGM became a social problem, and several reports and research projects have been undertaken to propose methods of regeneration (Osaka Commerce Cooperative Society Union, 1981; Ikeda, H., 1986, 1989; Uchida, T. 1987-a, 1987-b; Institute of Small and Medium Size Enterprise, 1986).

In an attempt to halt decline, many RGMs introduced a self-service section to respond to consumer needs. The section sells mainly grocery foods, general goods etc., and is usually operated by a company in which all retailers in the RGM have an investment. It has been fairly successful, but has had problems. One of the problems has been that each self-service section of the RGM has purchased its stocks individually, so they have not been able to enjoy economies of scale. Although there have been many attempts to resolve this situation, these have failed, because the small retailers were somewhat conservative and reluctant to co-operate.

From the late 1990s, a new approach to regenerate the RGM has been having success. The cooperative delivery and buying system, which was believed to be hard to implement in the RGMs, has been constructed by the AKR Kyoueikai. Furthermore, AKR Kyoueikai have been extending their activity from delivery and buying to trial development of two way channels of communication with the consumer, involving consumer groups. As a result, they have some similar aspects to voluntary chains with respect to cooperative buying but not with co-operative marketing. This paper focuses on the AKR model, because

we believe that its unique systems and concepts are meaningful for the small retailers wishing to improve their competitiveness by themselves. Therefore, the purpose of this paper is to analyze the model and its success factors and to present suggestions for further research.

In the following sections, we first discuss the environmental changes related to regeneration of the RGM, and briefly review its history and the research related to it. Secondly, we analyze the mechanisms of the AKR Model. Thirdly, we suggest the key factors that have generated success for AKR. Finally, a summary is provided and some suggestions for further research are proposed.

## **2 The value and possibility of regeneration of the RGM**

### **2.1 The value of regeneration of the RGM**

Discussion of the regeneration problems of the RGM has to make clear the social value of the RGM. In Japan, which was a society characterised by large-scale production and mass-consumption, high priority has been placed on increasing the level of efficiency in many economic sectors including distribution. However with the maturation of economic society, new important problems have emerged, for example, the rise of consumer concerns for the global-scale environment and resources problems, the necessity of meeting the needs of an aging society and the consumer concerns about safety and reliability of foods.

In such a context, the need to reassure people on these points is becoming increasingly important. The large shopping centre in the suburbs that assumes the use of the car, is not necessarily desirable from the viewpoint of the global environment and total distribution cost for the whole society. Moreover, considering the increase in numbers of elderly people, having a distribution system based on the shopping centre poses problems (Hare, 2003).

In the future, society will increase its demand for a distribution system familiar to the consumer and in harmony with the environment. In such a situation, it will be useful for the small retailers to use fully their social advantages, for example their links to neighbourhood and the close relationship with the local community and with local consumers. Changes of this type will result in distribution systems that align with social needs. In this context small retailers will become more valuable for the aging society. It is important, therefore, to regenerate the RGM as a key player in the foods and commodity goods distribution and to exploit its social role.

### **2.2 Change of the management environment and the regeneration of RGM**

In the past, the functionality and/or good design of products have worked effectively to allow them to penetrate the market. But in a society where there is maturity of demand and products, the issues of how to present products have been of increasing its importance. For example, convenience stores have achieved

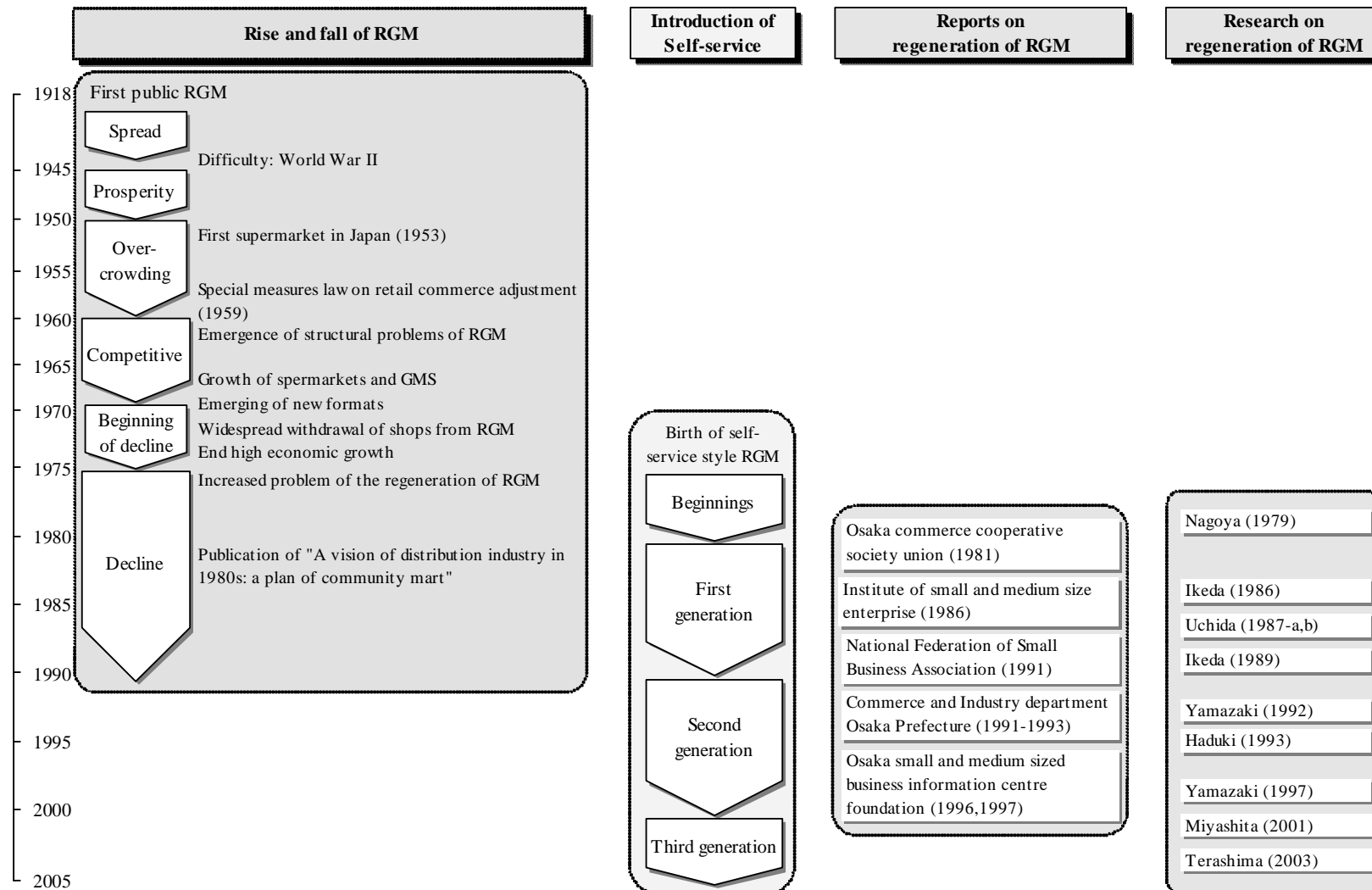
this change of competitive position. Seven-eleven, Lawson, Family-mart, and others offer their own branded products, many of which are not fundamentally different from the products sold at the traditional small shops and large stores. The reasons for the popularity of these products in convenience stores can be found in their offer of convenience itself and the procedures that provide the value of convenience for the customer. They are offering, for example, the following types of conveniences as a total service;

- 1) Convenience related to the time; they open their shop 24 hours a day and 7 days a week,
- 2) Convenience related to the range of merchandise; almost all the everyday goods which a consumer needs are offered
- 3) Convenience related to the location; the shop usually is situated within a few minutes walk or bicycle ride from the consumer's home.
- 4) Convenience in the type of product sold; product functionality emphasises ease of use
- 5) Convenience in the speed of service
- 6) Convenience in the mix of products and services
- 7) Convenience in an easy choice of brand; few brands are provided for any single product.

Although many of these features of convenience have been offered by the traditional small shops themselves, convenience stores offer a total integrated service system.

As shown above, it has become more important as a competitive tool not only to respond to the consumer needs through the goods and services themselves but also to offer the customer value through a whole system. It is desirable in the construction of a new system to respond to the consumer's needs rather than those of the organization. However it is not necessarily true that a large company has more advantage in operating such a system than a small retailer because small retailers are close to the consumer and may have the opportunity to exercise innovation in customer relationships. Sparks (2000) in advocating a more proactive role for small retailers suggested that; "rather than focusing on the externalities of where we are, we might spend more time on constructing the methods by which we get to where we want to go." [p. 16]

As we argued above, it is apparent that the regeneration of the RGM has an important social component. If they take a positive stance, today's competitive environment in the retail sector can be considered to be an advantage to them rather than a disadvantage. The RGM has several inherent positive attributes. Most notable of these are highly accessible locations and long term relationships with the customers. They have not exploited these factors and the opportunity exists for their re-evaluation.



**Figure 1 Rise and fall of RGM and its regeneration**  
(Sources: Yamazaki, 1992; Osaka small and medium sized business information centre foundation, 1996)

## 2.3 Evolution of the RGM

Figure 1 provides an overview of four aspects of the RGM:

- 1) rise and fall of the RGM's market power,
- 2) the attempt at regeneration using self-service,
- 3) major reports about the regeneration of the RGM issued by administrative agencies, and
- 4) research studies about the regeneration of the RGM.

## 2.4 Structural problems of the RGM related to loss of market power

It is apparent from the research studies shown in figure 1 that a number of structural problems of the RGM were the major cause for the loss of market position in competition with the new formats. These are summarised as follows and are illustrated in figure 2;

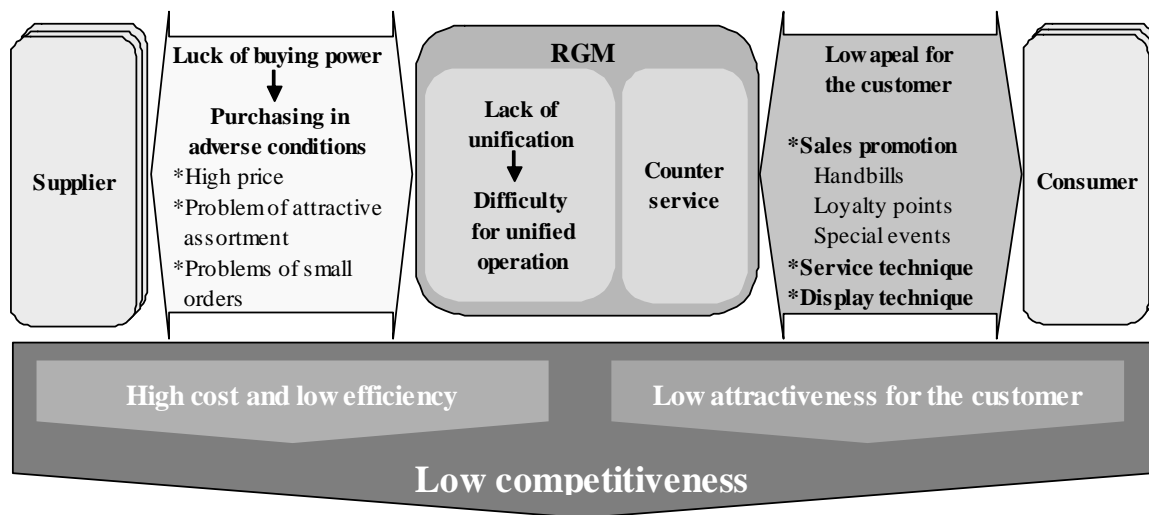
**Lack of unification.** Although an RGM takes the form of a shopping centre, it is in reality a collection of many independent shops. Each shopkeeper has strong feelings of independence and a belief that decisions on operating the shop should not be controlled by anyone else. Such attitudes have worked as a barrier to making the RGM a unified operation.

**Poor response to the change of consumer life style.** During the period of high economic growth, consumers changed their life-style and buying behaviour. (National Federation of Small Business Association, 1991) Additionally they have rapidly increased their mobility. However at the RGM, because of the limited and specialized nature of the merchandise of each shop, change or adjustment among the shops has been very difficult. For example, some types of business have not adapted to the new trends in diet. The RGM as a consequence has not adapted well compared to the new formats.

**Retention of counter service.** The RGMs have traditionally operated through counter service. But with the spread of self-service in supermarkets, many consumers now prefer self service. Consumers regard counter service as slow and inconvenient, while self service is quick and convenient. The RGMs that have retained counter service have been seen as unresponsive to the consumer.

**Lack of buying power.** Each shop in the RGM is strongly individual for not only shop operation but also buying. Therefore their purchasing scale is limited. As a result, they have to accept adverse conditions of purchasing. For example, relatively high buying prices, difficulty in getting the popular items and/or attractive varieties, restricted service from wholesalers, low efficiency as a result of getting small deliveries from many wholesalers, and excessive stock levels due to the long order term, all present difficulties for the small retailer in the RGM. They also have a problem in that they can not trade with leading wholesalers. The result of all these factors is that the retailers are forced into low efficiency and high cost operations.

**Excessive dependence on promotional handbills.** The RGM have used mainly handbills to attract consumers, like many other retailers. But as mentioned above, because they do not have low prices, the strategy of depending on handbills has not been successful. In focusing on price they have not exploited their advantages, like the closeness to the community and friendly relations with customers. Therefore their attractiveness to consumers is not well communicated.



**Figure 2 Structural problems on the RGM** (source: Terashima, 2003)

## 2.5. Regeneration using self-service

In the context of the declining competitiveness of the RGMs, experimental approaches began at some progressive RGMs around 1975. These experiments sought to introduce self-service to improve their competitive position. These trials were seen by many other RGMs, and there was a wider adoption of this method after 1980. Around 60% of modernized RGMs had adopted some self-service by the end of the 1980s. In the early 1990s a second phase of adoption affected a further 30% of RGMs. By the late 1990s the remaining RGMs were converting but several of those that had converted in the early phase were exploring new innovations. The RGMs have modernised mainly using self-service methods, however this approach has been insufficient to improve their market position. Although they appear to be a modernized market, they have not succeeded in solving their conventional structural problems.

Miyashita (2001) pointed out the fundamental problems that the RGMs modernising only by self-service methods have to solve;



- (1) Lack of a unified concept of the RGM as a whole
- (2) Non-standardization of management and merchandising among the groups
- (3) Poor information system and insufficient use of available data
- (4) Lack of co-operation among RGMs
- (5) Poor flexibility of the information systems
- (6) Lack of linkage and integration between the self-service zone and speciality shops zone
- (7) Low level of efficiency in self-service section

Changing the appearance has not addressed the more fundamental issue of competitiveness.

## **2.6 Suggestions for more radical regeneration of the RGM**

Several reports on the regeneration of the RGM have been produced by administrative and governmental agencies. Additionally academic studies have been undertaken. Reviews of these follow.

Nagoya (1979), in an early study, suggested three steps to modernization of RGM:

- Recognition of the regional retail environment
- Drawing up the RGM's future vision based on this
- Modernization of equipment, awareness and commitment of the management to realizing this vision.

Osaka Commerce Cooperative Society Union (1981) published a report that addressed the decline of the RGM. Its report pointed out the problems with counter service, and suggested the change of format from counter service to self-service. It also indicated how other problems should be addressed:

- Change the awareness of the RGM retailers; management practice should be more scientifically based, with more co-operation between the organizations.
- Pursuit of a marketing approach based on emphasising, freshness, ease of selection of goods, low prices and a wide range of goods.
- Promotion of systematised operations with unification on the decision making and development of chain operations for RGMs.
- Further trials of co-operative buying.

The Institute of Small and Medium Size Enterprise (1986) suggested two plans: one included the measures that should be taken by each RGM and another one suggesting actions that should be undertaken by the united organization of the RGMs. Moreover, as information technology progressed, it proposed that RGMs should introduce POS and VAN systems, and it also showed how the process should be implemented.

The Commerce and Industry Department of Osaka Prefecture (1991-1993) put forward several propositions aimed at changing the attitude towards modernisation of retailers in RGMs. Some have been implemented but the decline of the RGM continued.

Osaka Small and Medium Sized Business Information Centre Foundation (1996) proposed a new POS network project plan. It emphasised the importance of the regeneration by co-operation rather than individual action. Following the report, Osaka Small and Medium Size Business Information Centre Foundation (1997) suggested linking many of the sections operating in each RGM in order to develop them further as chain organizations. For example, there were suggestions for cooperative buying within the regenerated RGM and co-operative innovations of other aspects.

Ikeda (1986) emphasised the importance of regional and local consideration and proposed a classification according to the location and shop type as a framework to decide the regeneration strategy. Uchida (1987-a, 1987-b) proposed a new idea for the regeneration in suggesting that the RGM should act as the centre of a community. She divided the RGMs' problems into two groups: the operational one inside the organization and the environmental one outside. She stressed the importance of reinforcement of the organization itself rather than depending on the physical structures and equipment. Haduki (1993) also emphasised the organisational aspects of the regeneration RGM and the proposed a series of steps for managerial implementation of plans. Yamazaki (1992) focused more on the physical aspects of regeneration and proposed a classification of the ways to reactivate the RGM based on the self-service axis and the investment axis. In a later paper, Yamazaki (1997) explored the technological approach in more detail suggesting that the POS system introduced in RGMs should be put to practical use by the adoption of the standard POS in Japan. In a wider ranging review of small retailers Miyashita (2001) argued for a range of business models to be used to re-invigorate the RGM. He suggested that the regeneration of RGMs using self-service was one type of business model, and he proposed the information network approach linking the regenerated RGMs as a second model for the second stage of the regeneration.

Through these reports and research, we can see the course of regeneration of the RGM as comprising several aspects: introduction of self-service, reinforcement of the social role of the RGM, a positive response to the information technology, a more professional approach to management of RGMs individually and as a chain or network, and enhanced co-operative activity by the retailers in the RGMs.

### 3. The successful case of AKR Kyoueikai

Although the necessity of cooperation for the regeneration of RGM was pointed out in “A Vision for regeneration of the RGM” in the early 1980s, it was revived as a major subject to be solved within the information network environment in the late 1990s. AKR Kyoueikai has overcome several problems by the construction of a unique system.

#### 3.1 Outline of AKR Kyoueikai

The main business of AKR is co-operative buying and delivery of processed foods for the RGMs that have introduced self-service. AKR stands for All Kouri-ichiba Rengo and Kyoueikai means sharing the prosperity within the RGMs. The organisation was established in 1998. It consists of three branches: Osaka, Hyogo and Kyoto, and is managed through five committees: assessment, buying, information, improving distribution and improving labour and a secretariat that is responsible for payments to wholesalers who are part of the cooperative delivery and buying processes [figure 3]. At the end of March 2003, 43 RGMs were members: Osaka 17, Hyogo 16 and Kyoto 10. Sales increased as follows:

11.3 billion Yen (2000 business year)

26.0 billion Yen (2001 business year)

30.0 billion Yen (2002 business year)

33.0 billion Yen (2003 business year, plan)

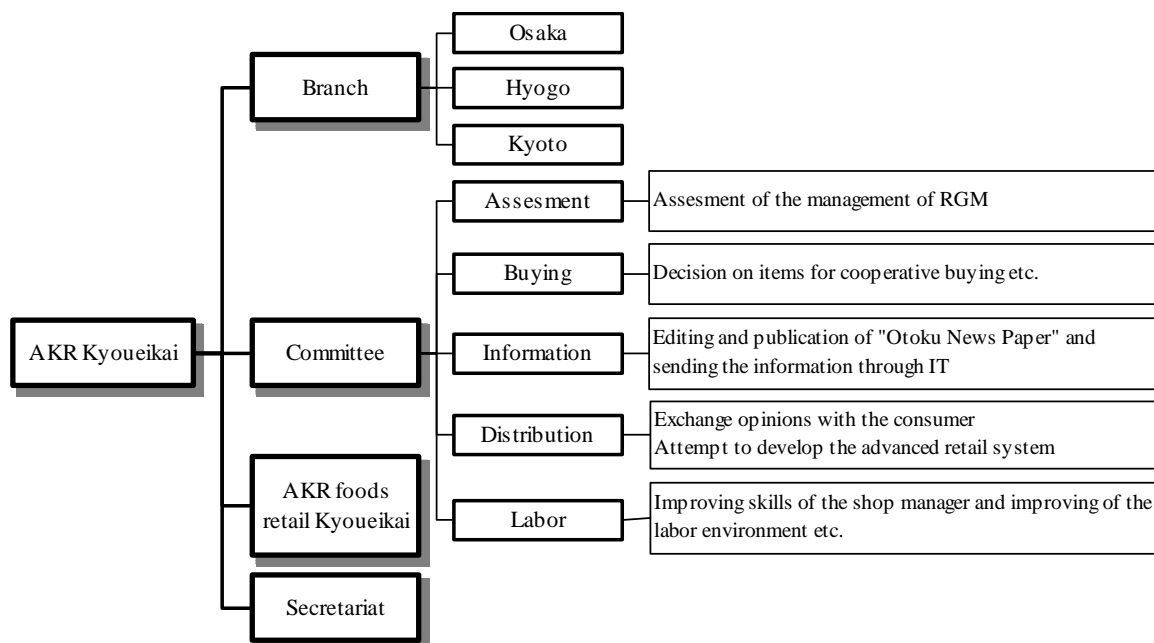


Figure 3 Organisation of AKR Kyoueikai (source: Terashima, 2003)

The origin of the business is the Osaka RGM network committee (1993 - 1995) that was established to research the further methods of improvement for those RGM already using self-service. Based on the research, a cooperative delivery and cooperative buying programme was proposed to the Asahi-ku RGM Confederation in Osaka City. A pilot project started on May 1997 but this did not go smoothly. First, the retailer's attitude had to be changed. Although cooperative buying had been tried for a long time because it makes possible realization of economies of scale, it had a history of failure, and retailers knew that. Major causes of failure were thought to be:

- Loss leaders for sales were selected as cooperative buying items. This forced retailers to purchase amounts in excess of their sales ability. So it tended to result in dead stock.
- Liability for all debts of the cooperative buying activity was the responsibility of the leader of the organization.
- The greater the increase of cooperative buying, the greater the increase of the risk for both buyer and supplier.

For these reasons, retailers had regarded cooperative buying as difficult and dangerous. They felt that the disadvantages due to the high risk outweighed the advantages gained from economies of scale. The buyer of the self-service section of the RGM was unwilling to give up power and therefore resisted changing supplier.

At the same time, retailers were facing difficulties in receiving deliveries because they purchased their stocks from many suppliers. This produced a decrease in efficiency, because these were delivered at different times by each supplier. For that reason, AKR proposed first the co-operative delivery method to motivate the small retailers to join the co-operative business. Small retailers felt that the advantages of solving the problems of multiple deliveries were more useful than the advantage of buying in a co-operative. The introduction of cooperative buying was suggested only after the introduction of the cooperative delivery.

Although retailers were opposed to the co-operative plan at first, their attitude gradually changed. They began to realise that it would be beneficial to take any action which would help them to survive in the very competitive environment. Eventually, a pilot project started with five RGMs out of eight in Asahi-ku, Osaka City.

In order to start the proposed cooperative plan three issues had to be resolved:

- how to secure the supplier,
- how to receive and place orders, and

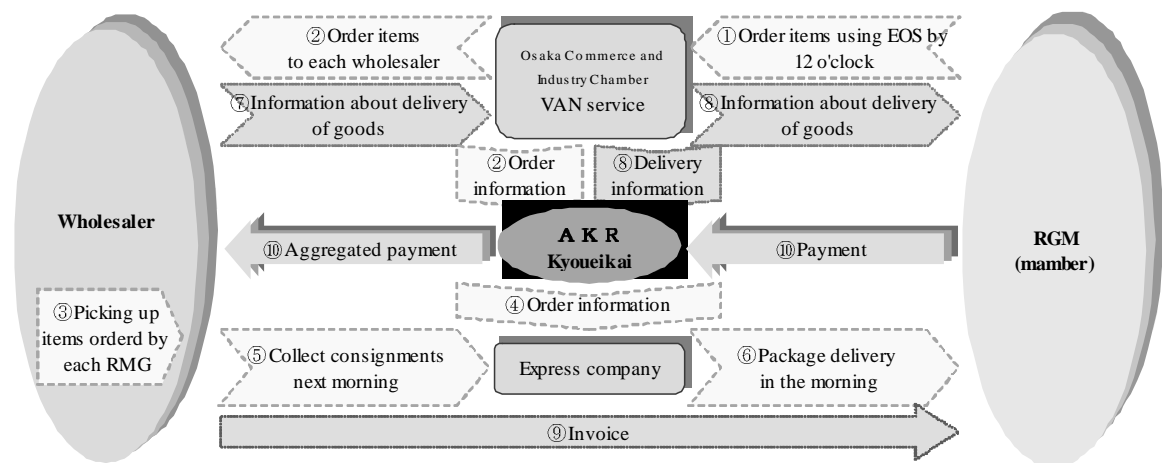
- how to organise goods delivery.

In relation to these subjects, AKR were able to obtain the cooperation of Kanetomi Co., Ltd. for buying and Nippon Express Co., Ltd. for delivery. The former is one of the leading local wholesalers in Kansai area, in west Japan, and had prior business relationships with the RGMs. The latter is the biggest distribution company in Japan. Kanetomi Co., Ltd. offered some important services on the assumption that all orders on the 500 regular items of processed foods from the participating RGMs were consolidated: everyday low prices, picking the ordered items in a small quantities and cooperation with the cooperative delivery. The need for co-operative delivery was also satisfied using the delivery system of Nippon Express Co., Ltd. The VAN service offered by Osaka Commerce and Industry Chamber was used for receiving and placing orders. This made it possible to unify the orders from the RGMs.

After the pilot project during 1997 and 1998, a full scale system started in 1999. Subsequently, Hyogo and Kyoto branches joined the AKR group. With the increase of members, Asahi Foods Co., Ltd. and Kato Industry Co., Ltd. joined the supplier group.

### **3.2 The mechanisms of cooperation and its effect - reinforcement of the management basis**

Davies and Harris (1990) pointed out that the operating methods with low costs, like street trading or direct selling are optimal to give small retailers the potential for economic advantage against large multiples. The AKR Model illustrates this benefit by providing multiple functions with low investment through the effective use of a social infrastructure. Its major advantage is that the members of the group can immediately gain benefits from the co-operative business because charges are low and there are few changes in their routine work. This makes it easy for many small retailers to participate in co-operative business and share the advantages gained from it. Its strategy differs from many other small business support measures that are heavily dependant on public subsidies. The AKR model is summarised in figure 4.



**Figure 4 The AKR system for cooperative delivery and buying** (source: Terashima, 2003)

This process facilitates the delivery of ordered items on time and in one consignment. The process is as follows: the order from each RGM is processed by 12 o'clock on day one and is sent to the wholesalers on the VAN services. The items ordered are picked for each RGM by the wholesalers. In the morning of day two, the service of Nippon Express collects the items from wholesalers, puts them into an individual shipment for each RGM and delivers it to each RGM.

This implementation of cooperative delivery and buying enhanced the buying power of the members of AKR and they were able to get the following advantages:

- Increase of the gross margin ratio with the decrease of buying price. In the pilot project in 1997, the buying price was reduced by between 3.4 and 7.2 percent, and the gross margin ratio increased by between 4.5 to 9.6 percent.
- Because the goods ordered are gathered in one shipment and delivered at a scheduled time, the store level efficiency, for example the reception of goods delivered and the displaying of these etc., increased three fold.
- Shortening of the ordering cycle, from three days to one day, makes it possible to reduce the amount of stock and the space to display it.

It is estimated that the implementation of the cooperative delivery and buying system reduced costs by about 10 percent.

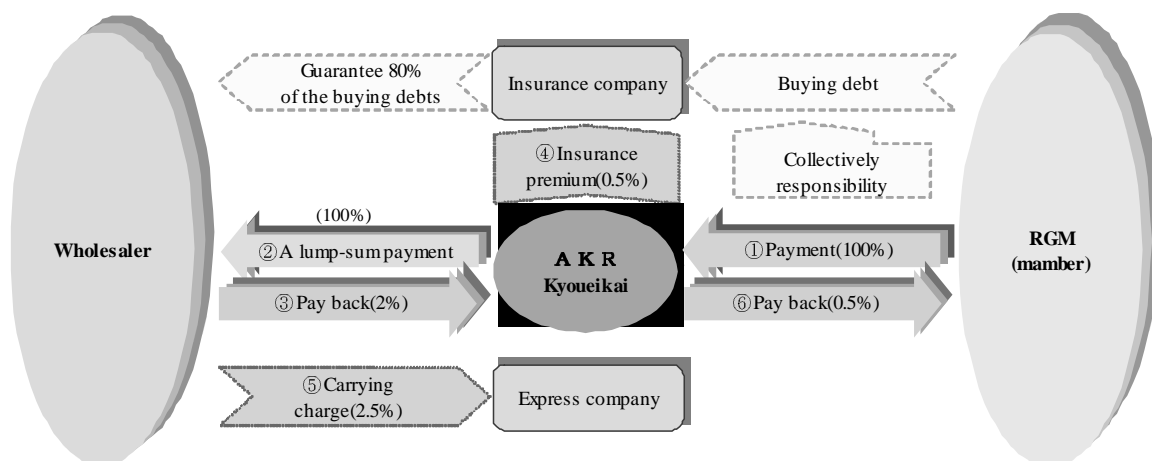
The most important feature of the AKR Model is the guarantee system for retailer debts associated with buying, and this is a core part in AKR Model. With the increase of the number of members and the amount of selling, the problem of liability for the debts has arisen in AKR. For this problem, a new idea

was introduced that insures the buying debts against default. This has not been tried previously in Japan. After the negotiations with a large property insurance company, they were able to contract with this company for the risk of the buying debts of the co-operative. In November 1999, a co-operative society named “AKR foods retail Kyoueikai” was established to consolidate payments with co-operative delivery and buying.

The benefits of the guarantee system for buying debts were:

- Reductions of the concentration of responsibility and of the risk of the buying debts
- From the view point of wholesalers, because the risk was taken away, relationships with retailers were improved and some wholesalers proposed new business relations to them.
- Retailers were able to have the advantages of co-operative buying, and they were also able to concentrate on their management.

Another feature of this guarantee system for buying debts is that retailers were forced not only to be part of the co-operative insurance system but also to give individual guarantees. Being under the protection of an insurance company may raise the possibility of new risks: for example the decline of management judgement, arrears of payment for buying debts etc. Memberships of the guarantee system lessens those risks in advance by making clear the responsibilities of retailers, under an obligation to be a jointly and individually liable. AKR Model has a double safety device for the co-operative buying debts [figure 5].



**Figure 5 A system for buying debts guarantee and operating cost** (source: Terashima, 2003)

In the AKR Model membership fees are fixed at a low level. Each member pays 150,000 yen as an entrance fee, 5,000 yen a month as a membership fee and 15,000 yen a month as a publication cost of Otoku newspaper (see below). The mechanism that makes possible the low operational cost is as follows:

- The money paid by each member for their purchases from each wholesaler, is paid in a single payment via the head office of AKR Kyoueikai.
- Each wholesaler pays back 2% of turnover to AKR Kyoueikai. 0.5% of this refund is put to the payment of an insurance premium, and 0.5% is used to pay back each member in proportion to their buying records, and the rest pays for operation costs. The money paid back to each member is used as capital for the joint and several liabilities. This means that the operating costs of AKR Kyoueikai including the insurance premium are kept below 1.5 percent of their turnover.
- Delivery costs of 2.5% of turnover are paid to Nippon Express Co., Ltd. from each wholesaler.

Although the cooperative delivery and buying business started from packaged foods, it has now spread to other items and to supplies used in shops and offices and equipment for shops. The range of items in co-operative buying has been expanded to confectionery, and it is planned to extend to bread, perishable foods, goods purchased directly from the producer and goods delivered every day. A delivery system for the chilled and frozen goods is also planned for the future.

With the enlargement of co-operative buying, economies of scale have started to be apparent for equipment, materials for packaging and plastic bags etc. used by each member. Moreover, printing costs of handbills and price of plastic bags have been reduced by 40%.

### **3.3 Development of the relationship with consumer**

The system for cooperative delivery and buying which has been explained above is very important as a means a competitive advantage for the retailer. It does not, however, address the need to provide a strong appeal to the customer. For that reason, the next step for regeneration of the RGM, is to introduce some consumer input and to strengthen links with the consumer. Construction of a strong relationship of mutual trust with the consumer will become a key factor in dealing with the increasingly competitive environment. The AKR Kyoueikai business model addresses this issue in several ways.

AKR Kyoueikai has been providing information to consumers about promotions, recipes etc. using handbills and web pages. Their basic policy is to achieve the high customer impact with low investment, and it has been doing this through the practical use of Information Technology. Each member of AKR Kyoueikai has been able to upload their promotional information to the AKR Web pages by fax since April 2001. Although many retailers are not good at using Information Technology, AKR makes it possible to



use fax machines that are familiar to them. Recently, AKR started a new service that sends e-mails about sales to a customer's mobile phone. These are a form of electronic handbill with a low cost.

It is a feature of AKR's development of communication channels with consumer that they are publishing an Otoku Newspaper in cooperation with *Mainichi*, one of the national newspapers in Japan. This Otoku newspaper was established in June 2001 and was issued every month until Dec. 2001. Subsequently they issued 300,000 copies every two months. It is delivered to the consumer through both newsboys and the shops of members. It usually consists of the following columns:

- Special Article which informs the consumer about the seasonal foods,
- Budget Recipe which introduces an original easy cooking menu,
- Fresh Information which introduces the ingredients for cooking,
- Members and reader's letters, and
- Free gift.

Many people apply for the free gift every time. Otoku Newspaper has the important role of increasing the consumer's trust in AKR and helping communications. It is quite unusual for a group of small retailers to have such a medium as this newspaper.

AKR Kyoueikai is in process of developing a new distribution system including consumer participation. As a first step, in 2002, they tried to evaluate the goods delivered from producers and study the safety of foods with representatives of consumer groups (AKR Kyoueikai, 2003). They are planning to offer the items evaluated highly by the consumer through the member shops, Internet and the Otoku Newspaper.

#### **4. Success factors of the AKR Model**

A major success factor of the AKR Model is the guarantee system for buying debts, because it produces trust and stability. For that reason, it is indispensable to the development of the business of members and AKR. On its own this factor is important but implementation of the system has needed: 1) removal of reservations felt by the members, 2) a consistent competitive strategy aimed at low cost and high effectiveness and 3) a focus on value for the customer.

**Removal of reservations felt by the members:** Removal of reservations felt by the retailers consistently works as a way to change the perceptions of members. Usually the small retailer tends to resist change. Indeed, they are afraid of the risks arising from co-operative buying. Also the retailer tends to consider the

cost of the co-operative as a heavy load rather than a positive investment. The following approach is used in the AKR Model to alleviate the unease felt by retailers.

- A first proposal to retailers in the RGM was a co-operative delivery system. It must be noted that the proposed solution was not co-operative buying from the start. This approach resulted from the consideration for retailers who had an antipathy to the co-operative buying. So co-operative delivery was selected as a trigger to the co-operation, because shop retailers had been recognizing as a real problem the inefficiency of receiving goods independently delivered.
- In the AKR Model, the membership fee is at a very low level, because almost all the operational costs are covered by payments from the wholesalers. On the other hand, members can get the following advantages: decrease of purchasing cost, receiving and displaying cost of delivered goods and higher efficiency of ordering. Therefore AKR has a system in which the members can certainly gain the advantages through joining without having large disadvantages.
- The guarantee system for buying debts using non-life insurance was developed to meet the problems of increasing risk. In parallel, each member was put under an obligation of joint and several liabilities for their debts to avoid in advance the trouble with co-operation. AKR makes it possible first to remove the uneasiness rising in a member's mind of sharing risks in their co-operation by using this double stabilizer. Secondly, AKR also succeeded in eliminating uneasiness felt by wholesalers about their credit, and this made cooperation with wholesalers easier.

**A consistent competitive strategy aimed at low cost and high effectiveness:** The second key success factor is that has consistently used the resources of other firms and the social infrastructure to implement its strategy. We can see such examples in the following:

- Development of the ordering system using the VAN service offered by the Chamber of Osaka Commerce and Industry.
- Construction of the co-operative delivery and buying system using the resources and functions of large wholesalers and transporters.
- Publication of the Otoku Newspaper with the tie-up with *Mainichi*. Many functions needed to issue the Newspaper, editing, printing and delivery to each home etc., use *Mainichi's* resources, and the costs and gift items are covered mainly by the wholesalers.

- Development of the communication channel between consumers and AKR using the Internet and mobile phone which are aspects of social information infrastructure.
- Adoption of plural wholesalers system from the viewpoint of the small retailer

Davies and Harris (1990) pointed out that the systems without costs are the optimal ones which give potential power of economic advantage to small retailers against large retailers. Dawson and Kirby (1979) listed “Reorganization of supply chain” as a way of overcoming the problems of independent small retailers in the UK. On this suggestion, Baron, Harris et al. (2001) made clear in their investigation that a proposal for small retailers in the latter half of 1990s to reinforce horizontal and vertical cooperative relationship adopting new technology has not been realized. The AKR Model is a solution in Japan for these suggestions made in the UK. The AKR system introduced the reconstruction of horizontal and vertical supply chains for co-operative delivery and buying for small retailers, and its effective function is accomplished due to combining the cooperation among retailers in the same trade and linking small retailers with social infrastructure and large company’s resources.

**Focus on value for the customer.** The third key factor is that AKR has a strong policy that increases customer value through the development of strong relationships with the consumer. For example, the electronic handbill using the Internet and Mobile phone, and the publication of innovative “Otoku” Newspaper, signifies “customer value” in a Japanese context. Many consumers look forward to each new issue of the newspaper, and have sent many opinions to the retailers. Alliance with a major newspaper publishing company helps AKR to increase their positive image. These activities can be recognized as creating new customer values for customers. It seems true that these activities make it possible for small retailers to build real power against competitors through combining low cost solutions and effective new function.

Baron, Harris et al. (2001) pointed out that with regard to the competitive advantages of independent small grocery retailers, “convenience” is no longer a unique advantage. They proposed as an alternative the “social shopping experience”. In order to make it possible for the small retailers to compete effectively against the large, it would be necessary to add the positive system for the customer as in AKR Model. Davies and Harris (1990) suggested that the successful strategy for the small retailers is to avoid price competition and to use the advantage of their favourable image. According to them, the AKR’s strategy, which focuses on the link with consumers and the development of the value for the customer, results in the formation of a good image, and makes it possible for them to differentiate themselves from their competitors.

## 4 Conclusion and Implications

Survival of the independent small grocery retailers is a social issue across various areas and many countries, not only in Japan. This paper has focused on a case in Japan in which the RGM institution has been revitalised by AKR. A management support system for the small grocery retailers in Japan has been successfully implemented.

The paper has discussed the AKR model from the following points of view.

- The mechanisms used to support the small retailers and the reinforcement of their management basis.
- The development by AKR of ways to enhance the relationship with the consumer to increase the attractiveness of retailers in the RGM.

The key success factors in the approach of AKR have been identified

- AKR constructed a system for the cooperative delivery, the cooperative buying and the EOS ordering due to a combination using the social infrastructure, and application of the know-how and facilities developed by the large companies. Although AKR have little fixed equipment, it established an organization that produces competitive advantages to its members: low buying price, ordering with minimum unit and delivery on the next day ordered.
- For the serious problem of underwriting debts with the increase of the cooperative buying, AKR established the guarantee system which consists of cooperative insurance and individual guarantees.
- Establishment of the low cost operation system based on payments from the wholesalers. It thus enables low membership fees for participating retailers.

These systems produced the advantages to the members of AKR, and worked effectively to strengthen their management basis.

AKR has tried to develop some valuable systems for the customer and the retailers;

- Practical use of the information techniques familiar to people; for example the up-loading special offers to a web page through fax machine, delivering e-mail to the mobile phone etc.
- Publication of Otoku-newspaper as a communication channel with the consumer.
- An attempt to develop a new type of retail distribution system which works with consumer participation.

The case of AKR makes clear that the development of the system has been consistently supported by the following conceptual bases.

- Focus on the need to remove the reservations felt by the small retailers. This makes it possible to build up and expand the cooperative business and to develop the systems.
- A consistent policy for the development of systems which effectively uses the social infrastructure and the resources of other company resources. This produced the system with low operational costs and high functionality.
- A focus on development of relationships with the consumer. This creates trust, a positive image and produces customer value.

It is essential to understand that AKR model implies that even if they are small, retailers can exercise initiative to construct competitive advantages due to use the social infrastructure and other company's resources. This suggests a course which should be taken by small retailers in the future.

Further research about the importance and effectiveness of this approach is required. Although the AKR model investigated in this paper is a successful case for survival of small retailers in Japan, the model and technique developed is useful not only for the regeneration of RGM but also for the many types of small retailers and various areas and countries. There is need for comparative research between the AKR model and the approaches in several European countries for support for Municipal Markets. Research on the application of AKR model and development of the model in Japan are also important subjects for the future. In particular there is a need to explore how consumer involvement in the activities of RGMs can be increased in the general AKR model, to enhance even further the social role of RGMs. It is important to consider how improvements in the competitive advantage of the small retailers can generate increases of customer value whilst at the same time providing a profitable enterprise for retailers.

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